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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, DECEMBER 18, 2001

APPLICATION OF

SHENANDOAH VALLEY ELECTRIC
COOPERATIVE

CASE NO. PUE000747

For a general rate increase

APPLICATION OF

SHENANDOAH VALLEY ELECTRIC
COOPERATIVE

CASE NO. PUE000748

For approval of a functional
separation plan

FINAL ORDER

On December 29, 2000, Shenandoah Valley Electric Cooperative ("Shenandoah" or the "Cooperative") filed its application to revise its rates and charges and its terms and conditions for supplying electric distribution service. According to the application, the Cooperative filed the application after considering its financial position and § 56-582 A of the Virginia Electric Utility Restructuring Act ("Act")¹, which authorizes capped rates to be effective January 1, 2001, and to expire on July 1, 2007. As provided by § 56-582 A 3, the proposed rates and charges took effect on January 1, 2001, on an interim basis and subject to refund. By

¹ Chapter 23 (§ 56-576 et seq.), Title 56 of the Code of Virginia.

Order for Notice and Hearing of January 19, 2001, the Commission docketed the application for an increase in rates as Case No. PUE000747.

Also, on December 29, 2000, Shenandoah filed an application for approval of the Cooperative's plan for functional separation ("Plan"). Rates established in the rate case will also serve as the starting point for the functional separation plan required by § 56-590 of the Code of Virginia. The Act requires that the Commission complete its review of proposed plans of separation by January 1, 2002, and that transition to competition be implemented according to a timeline established by the Commission. Pursuant to an Order issued on March 30, 2001, in Case No. PUE000740, the Commission established January 1, 2004, as the deadline for Shenandoah and other electric cooperatives to provide full retail access for their customers.

The Commission promulgated rules² for functional separation as required by the Act. These Rules require the Cooperative to file a Plan that includes a cost of service study separating the Virginia jurisdictional operations into functions: generation, transmission, and distribution, subdivided by class and specifically identifying the costs associated with metering and billing. The Rules also require that the Plan include proposed

² Commission's Regulations Governing the Functional Separation of Incumbent Electric Utilities under the Virginia Electric Utility Restructuring Act ("Rules"), 20 VAC 5-202-10 et seq., adopted in Case No. PUA000029.

unbundled rates, tariffs, and terms and conditions for service. Requests for waiver from the required submission of documents under the various sections of the Rules are also permitted.

The Rules (20 VAC 5-202-40 B 8) require a Cooperative to file its proposed unbundled rates, terms, and conditions as part of the functional separation application. Shenandoah stated that the rates and charges and the terms and conditions proposed in its general rate increase application in Case No. PUE000747 address services for shopping customers. The proposed unbundled rates did not include a wires charge filed pursuant to §§ 56-583 and 56-584 of the Code of Virginia. The Cooperative did identify a methodology for developing such a charge, if required in the future. The Cooperative also addressed default service provided pursuant to § 56-585 E of the Code of Virginia. Shenandoah stated that it had no plans to divest itself of any generation assets, to create any new functionally separate entity, or to propose to transfer any functions, services, or employees to a functionally separate entity or third party.

The Cooperative requested a waiver of 20 VAC 5-202-40 B 7, which requires cost-of-service studies as part of an application for approval of a functional separation plan. In support of the request, Shenandoah stated that it intended to use cost-of-service studies filed in its application for a general rate increase, Case No. PUE000747.

By Order for Notice and Comment and Establishing Revised Procedural Schedule of February 8, 2001, the Commission granted the requested waiver of the requirement to file separate cost-of-service studies and docketed the application for approval of a functional separation plan as Case No. PUE000748. The Commission provided that the Cooperative's functional separation plan should be considered in conjunction with the rate case, but if no requests for hearing were received, the application could be decided on the basis of the papers filed therein. Among other things, the Order scheduled a hearing for July 24, 2001, prescribed revised notice requirements, and fixed dates for filing reports, testimony and exhibits.

A public hearing was convened on July 24, 2001, for the sole purpose of receiving public comment on the rate application. No public witnesses appeared at that hearing. Shenandoah and the Commission Staff filed on September 7, 2001, a stipulation proposing to the Commission a settlement of the application for a general increase in rates, Case No. PUE000747, and the application for approval of a functional separation plan, Case No. PUE000748. On September 10, 2001, a hearing to receive evidence on the applications was convened. One public witness, Barbara Harrison, appeared to express concern with the Cooperative's seasonal rate schedule.

Before the Commission is the Report of Deborah V. Ellenberg, Chief Hearing Examiner, of November 2, 2001 (the "Report"). Examiner Ellenberg found that the stipulation offered a fair and reasonable resolution of the issues in both cases and was supported by the record. The Examiner further found that the rates, charges, terms and conditions proposed in the stipulation were just and reasonable. Likewise, the allocation of expenses and revenues between the Cooperative's generation, transmission, and distribution functions was reasonable. (Report at 9-10.)

With regard to the seasonal rate design, the Examiner found that there are two distinct types of customers served under the Seasonal Residential Service Schedule: "the second-home owner who occupies his home throughout the year, and the truly seasonal user who consumes zero kWh three or more months of the year." (Id. at 9.) Examiner Ellenberg noted that the Cooperative had collected and presented its class revenue and cost data on the basis of class averages. There was no identifiable data on the revenue and cost similarities of, or differences between, the two types of customers served under the Seasonal Residential Service Schedule. (Id.)

Examiner Ellenberg recommended adoption of the Staff's position on the issue. The Staff recommended that Shenandoah review ongoing load studies of the seasonal and residential rate

classes. The studies may support revisions in the classification of customers. The Staff recommended, and Examiner Ellenberg agreed, that the Cooperative should file a report on its studies. (Id. at 9, 11.)

In response to the Report, the Cooperative filed on November 8, 2001, a letter advising that it had no comments. Shenandoah did propose a methodology for calculating interest on any refunds that the Commission might order. In lieu of quarterly compounding of interest on refunds, as the Commission frequently directs, the Cooperative proposed monthly compounding on the grounds that the calculation was easier.³

NOW THE COMMISSION, having considered the Report and the record in these proceedings, finds that the recommendations made in the Report are just and reasonable and supported by the record. We also find that the Cooperative's proposal for calculating interest on the refunds that we order below is reasonable and may be adopted in this proceeding.

Accordingly, with regard to the application for a general increase in rates, the Commission finds as follows:

(1) The use of a test year ending December 31, 1999, and the Staff's methodology to adjust for the rate period from 2001

³ Ms. Harrison filed on November 15, 2001, comments on the Examiner's recommended disposition of the seasonal rate design issue. She contended that the Cooperative's seasonal classification of customers was an unreasonable practice.

through 2007 is proper in this proceeding and complies with the requirements of the Act;

(2) The Cooperative's average 2001-2007 rate period operating revenues, after all adjustments, are \$41,130,209;

(3) The Cooperative's average rate period operating expenses, after all adjustments, are \$36,125,216;

(4) The Cooperative's average rate period operating margins, after all adjustments, are \$5,004,993;

(5) The Cooperative's average rate period total margins, after all adjustments, are \$2,470,859;

(6) The Cooperative's current rates produced a Times Interest Earned Ratio (TIER) on adjusted average rate base of 1.79;

(7) The Cooperative should have a reasonable opportunity to achieve a TIER of 2.5;

(8) The Cooperative's application requesting an annual increase in revenues of \$2,830,443 is unjust and unreasonable because it would generate a TIER greater than 2.5;

(9) The Cooperative requires \$2,233,322 in additional gross annual jurisdictional revenues to have a reasonable opportunity to achieve a TIER of 2.5;

(10) As set forth in the Stipulation filed by the Cooperative and the Staff on September 7, 2001, the modified rate design recommended by the Staff and attached to the

stipulation as Exhibit B, with the exception of the Schedule PC-2 Peak Control rate, is just and reasonable;

(11) The Cooperative's proposed rate of \$0.01815 for Schedule PC-2 Peak Control is just and reasonable;

(12) The revisions to the terms and conditions of service as set forth in the Stipulation are just and reasonable and should be implemented;

(13) The Cooperative should file permanent rates designed to produce the additional revenues found reasonable using the revenue apportionment and rate design methodologies contained in the Stipulation;

(14) The Cooperative should be required to refund, with interest, all revenues collected under its interim rates in excess of the amounts found just and reasonable herein; and

(15) The Cooperative should conduct a study of the results of the load studies to identify usage patterns of all residential customers and review its rate design to determine if consumption, costs, and revenue recovery are properly matched. The Cooperative should file with our Division of Energy Regulation a report on its study, including any revisions in rates, charges, terms, and conditions necessary to more accurately and reasonably match consumption, costs, and revenue recovery.

With regard to the application for approval of a functional separation plan, the Commission finds that the Plan set forth in the Stipulation provides a fair and reasonable allocation of plant, revenues, and expenses between the Cooperative's generation, transmission, and distribution functions.

With regard to functional separation, we find that generation and transmission costs should be tracked prospectively by the Cooperative in order to ensure accurate functional allocations in any future proceedings before the Commission. We also direct Shenandoah to begin tracking the incremental costs associated with billing and collection costs, as well as the activities that give rise to the customer service and legal and regulatory costs.

Finally, the impact of a monthly fuel adjustment factor in relation to the determination of the market price for generation and the wires charge may impact cost-of- service studies. However, because it is not necessary that we resolve this issue prior to January 1, 2002, we will defer our consideration of it until next year. In the interim, we direct the Staff to (i) consult with Shenandoah, the other electric cooperatives, and any other interested parties on this issue and (ii) submit a written recommendation to the Commission on or before March 1, 2002, on whether we should implement an annual fuel factor

adjustment for the cooperatives in lieu of the current fluctuating monthly fuel charge.

Accordingly, IT IS ORDERED THAT:

(1) Shenandoah's application for a general increase in rates docketed as Case No. PUE000747 is granted to the extent discussed in this Order and is otherwise denied.

(2) Shenandoah's application for approval of a functional separation plan pursuant to the Act docketed as Case No. PUE000748 is granted and the Plan is approved to the extent discussed in this Order and is otherwise denied.

(3) On or before December 28, 2001, Shenandoah shall file with the Commission's Division of Energy Regulation revised schedules of rates and charges and terms and conditions conforming to the Commission's findings in this Order. The revised rates and charges and terms and conditions shall bear an effective date of January 1, 2002, and be effective for service provided on and after January 1, 2002.

(4) On or before March 1, 2002, Shenandoah shall recalculate, using the rates and charges prescribed by this Order, and effective on January 1, 2002, each bill it rendered to all customers based, in whole or in part, on the rates and charges that took effect, on an interim basis and subject to refund, on January 1, 2001. Where application of the prescribed

rates results in a reduced bill, Shenandoah shall refund, with interest, as directed below, the difference.

(5) Interest on refunds shall be computed from the date payments of monthly bills were due to the date refunds are made. Interest shall be compounded monthly. The rate for each month shall be the "bank prime loan" rate published in the *Federal Reserve Bulletin* or "Selected Interest Rates", Federal Reserve Statistical Release H.15 (519), for the preceding month.

(6) The refunds directed in ordering paragraph (4) may be credited to current customers' accounts (each refund category shall be shown separately on each customer's bill). Refunds to former customers of \$1.00 or more shall be made by check mailed to the last known address. Shenandoah may offset the credit or refund to the extent no dispute exists regarding the outstanding balance of a current or former customer. No offset shall be permitted for the disputed portion of an outstanding balance.

(7) Shenandoah may retain refunds of less than \$1.00, which are due former customers. Shenandoah shall maintain a record of former customers for which the refund is less than \$1.00, and such refunds shall be made promptly upon request. All unclaimed refunds shall be subject to § 55-210.6:2 of the Code of Virginia.

(8) On or before May 20, 2002, Shenandoah shall file with the Commission's Division of Energy Regulation a report showing

that all refunds have been made pursuant to this Order and detailing the costs of the refund and accounts charged. Costs shall include, inter alia, computer costs, and the personnel hours, associated salaries and costs for verifying and correcting the refunds directed in this Order.

(9) On or before January 1, 2003, Shenandoah shall file with the Commission's Division of Energy Regulation a report on the studies of discussed in finding paragraph (15) above.

(10) On or before March 1, 2002, the Staff shall submit a written recommendation to the Commission on whether we should transition to an annual fuel factor adjustment for the cooperatives from the current fluctuating monthly fuel charge, and if so, how such a transition should occur.

(11) Shenandoah shall provide tariffs and terms and conditions of Service to the Division of Energy Regulation that conform to this Order and all applicable Commission Rules and Regulations one hundred fifty (150) days prior to its implementation of retail choice.

(12) These cases are closed and dismissed from the Commission's docket.